Washington Clean Energy Leadership Council

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TO: Governor Christine O. Gregoire and the Legislature

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SUBJECT: Final Report and Recommendations

As required by section 9(a) of SB 5921, this is the final report of the Washington Clean Energy Leadership Council (CELC). The Council was chartered to conduct a comprehensive assessment of Washington's competitive position in clean energy, identify the best opportunities for growing clean energy jobs and companies in Washington, and developing a strategy for leveraging Washington's competitive assets to achieve leadership and sustainable job growth. The Council hired Navigant Consulting, a global leader in energy and utility consulting, to carry out the detailed analysis specified in SB 5921.

The Council found that while Washington has a national reputation for sustainability its efforts to grow clean energy companies and jobs is significantly behind other states that have made job growth in clean energy a top priority. The best states are aggressively targeting the clean energy sector and have aligned state policies, regulatory actions, and state investments. The Council found that Washington is well positioned to become a national leader in a number of clean energy segments, but needs to act quickly to implement a strategy to realize that potential. The attached report:

- Provides the analysis, strategy, and policy recommendations for creating 50,000 jobs over the next decade
- Identifies three areas where Washington has unique assets and/or competitive advantages that provide the best opportunities for growing clean energy jobs and companies over the next 3-5 years
- Presents an innovative, high-leverage strategy for catalyzing projects and investment in Washington State
- Proposes refocusing existing state resources to create a new public-private partnership—the Clean Energy Partnership—to implement the strategy and facilitate "Market Driving Initiatives," which are detailed in the report.

The Council believes that this approach is unique in that it *does not* call for large tax incentives, expensive mandates, or significant subsidies. Instead, it creates an innovative, non-profit Clean Energy Partnership that is charged with targeting opportunities where the state already has significant assets and then aligning and leveraging limited state resources to attract significantly larger investments from non-state partners. The Partnership would develop Market Driving Initiatives (described in the report) that convene in-state talent to carry out collaborative, cutting-edge projects that build leadership in areas with significant global demand and export potential.

The attached report from Navigant Consulting describes Washington's competitive position and the Council's strategy for growing the clean energy sector in Washington. The following "Recommendations for Implementing the Navigant/CELC Strategy" provide additional guidance from the Council based on a feedback from regional meetings and discussions with leaders throughout the state.

WASHINGTON CLEAN ENERGY LEADERSHIP COUNCIL

Recommendations for Implementing Navigant/CELC Strategy

1. **Establish an innovative, dynamic Clean Energy Partnership (CEP) by consolidating and refocusing existing state resources, rather than creating a new organization**. We propose refocusing and leveraging several existing state supported organizations that currently support economic development, innovation, and energy issues and then locating the Washington Clean Energy Partnership (CEP) in that entity. The organization needs to be small, highly competent, flexible, and have the ability to provide leadership and coordinate projects with a range of public and private entities. **We propose consolidating and transforming the current Washington Technology Center (WTC) and SIRTI in Spokane into a single statewide organization that can house the Clean Energy Partnership (CEP).** These organizations already have the statutory authorities and administration capabilities required to support the CEP.

   To successfully focus and leverage limited state resources, the **CEP needs to be given primary responsibility for managing energy related grant and funding *programs***. Since the state spends very little on energy grant programs today, this does not require restructuring existing programs. However, a major finding of the CELC was the need to separate responsibility for state energy policy from the strategic management of programmatic initiatives and grant programs. Policy requires a thoughtful, deliberate, multi-agency approach to ensure policy alignment. Attracting non-state investment from multiple partners requires flexibility, ingenuity, and the confidence of outside partners in the operational and management capacity of the organization. To maximize the impact of limited state funds, the CELC recommends consolidating responsibility for future energy related *programs* and/or funds (such as the Energy Freedom Fund) at the Clean Energy Partnership. Responsibility for energy related *policy* should remain within the government. There may be a few exceptions for activities that are required to be conducted by the State Energy Program office, such as emergency planning and the administration of some Federal monies.

   The CELC has been working with Commerce, SIRTI, and the WTC over the past several months. They are supportive of this approach and ready to begin implementing these recommendations. This would allow the state to activate CEP quickly by:

   - Housing the CEP in a single, innovative organization chartered to leverage resources to maximum effect;
   - Leveraging existing administrative capabilities and unique authorities for a quasi-public organization to work with innovative companies and conduct public-private partnerships; and,
   - Empowering the organization with the authority and flexibility to hire the high-quality staff needed to make the CEP successful.

Taking this approach provides the organizational capacity to administer the CEP. It would be run as a dedicated function within the organization. Additionally, it would also have the ability to leverage the broader organization when helpful. While this approach provides an organizational home for the program, dedicated funding is still be needed to support the three Market Driving Initiatives proposed by Navigant. This proposal will allow the CEP to be established this year and then launch the Market Driving Initiative as funding is available.

2. **Create a small Governor's Energy Policy Office to provide leadership and coordination on policy issues and regulatory alignment.** We heard repeatedly that the lack of regulatory alignment with state policy goals is a significant problem in the state. We have a utility system where the regulation of energy issues – from utility pricing to construction codes, comprehensive planning standards and zoning requirements -- are addressed throughout a range of agencies (and at various levels within agencies). To have a strong clean energy industry in the state, companies need to know that policy set at the highest level will be implemented consistently on the ground and in a timely manner. We did not hear complaints about Washington's laws being overly onerous, rather we heard that the state lacked alignment from policy to implementation and generally was slow to resolve issues, which is a real problem when trying to meet project and schedule demands—particularly when deploying new clean, energy solutions. We heard that the best states generally have a dedicated team in the Governor's office (above any single agency) that is empowered to respond to issues and motivated to resolve issues in a timely manner.

   Given that the first recommendation is to consolidate programmatic activities and functions in a quasi-public, industry-focused partnership, it is important to have a team inside government that can handle regulatory and policy issues and be available to resolve inter-agency issues. It is also helpful to separate program management from regulatory responsibility—one is supposed to be innovative, flexible and responsive to industry needs, while regulatory matters need to be viewed through a more balanced lens.

   This policy alignment function does not need a large staff. We recommend a dedicated Senior Energy Advisor with 1-2 staff (again with dedicated energy responsibilities) that can work across agencies as well as other state and regional government entities to ensure policy alignment and timely resolution of issues.

   Having a couple of people with "Governor's Energy Office" on their card is also a benefit when working with companies because they feel that they are working with someone that has the Governor's ear and the authority to work across agencies to get things done, rather than any one agency trying to work through the bureaucratic process at multiple agencies to resolve issues.

3. **Provide statutory authority to the Clean Energy Partnership to report annually on policy alignment and regulatory barriers that limit the growth of clean energy in Washington State**. Regulatory and policy decisions must ultimately be made inside government, rather than in a

quasi-public entity. The CEP will be responsible for implementing the state's clean energy strategy and getting things done! This recommendation ensures that the CEP has the authority to utilize its expertise and share its experiences to help shape the policy and regulatory environment, while separating the authority for high-level policy and regulatory decision-making.

4. **Work with the legislature to establish a dedicated funding source**. Navigant was clear with the CELC that we are competing with other states that are dedicating significant resources (usually $25 million or more annually). It does not make sense to restructure government without the intention of providing enough funding for the new organizational to make a difference. While the current fiscal situation may call for starting out small, our goal must be to identify a long-term funding source that can be scaled to provide approximately $20 million in catalytic funds annually.

   Without significant resources, potential partners will not take the state's commitment to growing clean energy businesses here seriously. Below are several options that could provide revenue in the future:

   - Small, targeted state-wide Public Benefits Charge
   - General Fund allocation
   - Tax offset incentive for Clean Energy, similar to the Motion Picture Competitiveness Program
   - Repurposing of certain Energy Tax Incentives when they expire

5. **Require that public funds be highly leveraged**. The goal of our proposal is to catalyze and leverage non-state investment in clean energy. Enabling legislation should require no less than a 50% match of non-state money and encourage the CEP to seek even higher levels of matching funds.

6. **Conduct a state-wide dialogue on how to leverage Washington's unique capabilities in nuclear power.** Navigant identified Washington's nuclear capabilities as a significant asset with growth potential. Navigant did not have time to conduct significant research on how best to tap that potential. Likewise, the potential of nuclear power (or the lack of a recommendation related to nuclear power) was raised at our regional outreach meetings. National policy is under review, so the CELC does not have a position on how best to tap the nuclear sector in Washington State, but we recommend the Department of Commerce conduct a state-wide dialogue to assess the potential, particularly in the realms of nuclear forensics and waste remediation. Timing is import because much of the workforce with unique skills in the nuclear industry is approaching retirement. So, the opportunity for Washington to help transition and retain such competencies so critical to the future of the world is now.

7. **Work with the Utilities and Transportation Commission (UTC) on several issues specific to Investor-Owned Utilities**. In order for investor-owned utilities to fully participate in the CELC

strategy, there are a couple issues that the CEP will need to work on with the UTC.

First, the CEP should coordinate with the UTC and advocate for appropriate rate regulation for Investor Owned Utilities to develop and participate in aggressive and highly effective energy efficiency initiatives (so called decoupling policies to eliminate disincentives). The UTC has just issued new guidance on this topic and the CEP should coordinate with the UTC to help align and accelerate implementation of its policy with the CELC strategy.

Second, the CEP should work with the UTC to ensure that utilities have cost structures that appropriately incentivize them to participate in the deployment of forward looking technologies. The traditional approach of awaiting solutions to first be proven leaves the opportunity to build new businesses and grow clean energy jobs to others. Again, the UTC has indicated that it will be looking at this issue and the CEP should work with the UTC to help develop ideas and options, to support the state's goals of accelerating Washington jobs in clean energy.

8. **In Summary it should be recognized that the regulatory and policy changes we propose do not need to be implemented before the CEP is launched.** Rather, it should be understood that such regulatory and policy changes require careful analysis and thoughtful coordination to ensure policy and regulatory alignment. Conducting thoughtful analysis and providing recommendations that ensure alignment is exactly what the CEP should be chartered to do, but with the expectation and understanding that implementation of policy changes to support the growth of clean energy in Washington State will play out over time.

Attachments to this Report:

A. Executive Summary and Leadership Plan Overview
B. Full Report by Navigant Consulting to the Council "Washington State Clean Energy Leadership Plan Report: Accelerating Washington Clean Energy Job Growth".

These documents can also be downloaded at the Clean Energy Leadership Councils website: http://www.washingtoncelc.org/documentarchive/134/